



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 11, 2011

In its monthly report, OPEC stated that a good balance between oil supply and demand supported by adequate inventories and spare production capacity show that last week's decline in oil prices was inevitable and in line with short term market fundamentals. OPEC increased its forecast for 2011 demand growth by 20,000 bpd to 1.41 million bpd. The report appears to validate March's cut in production from Saudi Arabia and recent statements from other member country officials that a production

Market Watch

The US Commerce Department reported that the US trade deficit widened by more than expected in March, amid an increase in oil prices. The US deficit in international trade of goods and services increased 6% to \$48.18 billion from a downwardly revised \$45.44 billion in February. The February trade gap was originally reported as \$45.76 billion. The US bill for crude oil imports in March increased to \$27.67 billion from \$21.13 billion in February. The US paid \$35.68 billion for all types of energy-related imports, up from \$27.24 billion in February.

Societe Generale reiterated its Brent forecast of \$111/barrel for the third quarter of 2011, with a trading range of \$110-\$125/barrel. Brent crude in 2011 is forecast to average \$109.46/barrel while WTI crude is forecast to average \$101.39/barrel.

According to the latest ETP data from BlackRock, investors pulled over \$1 billion out of energy exchange traded products in April. The selloff in Brent crude was preceded in April by investors' bailing out of energy ETPs in the US and Europe however inflows into silver ETPs continued to support the precious metals complex.

Iran has adopted a \$484 billion budget for the year to March 2012, an increase of 31% on the year due to rising oil prices and domestic subsidy cuts. Iran's oil revenues this year are estimated at \$65 billion, up 20%. The subsidy cuts are expected to bring in between \$50 billion to \$60 billion of additional revenue for Iran.

Norway's DNO International SA will receive a first cash advance of \$110 million from oil exports from Iraq's Kurdish fields. It will receive the payment for a total \$243 million that the Iraqi central government promised last week to deliver to Kurdistan Regional Government in northern Iraq. The cash was generated from February and March crude exports from the Tawke oil field.

China's industrial output growth eased much more than expected in April to suggest the economy is slowing, reducing the need for further aggressive monetary policy tightening even as inflation remains high. Industrial output increased 13.4% on the year. Consumer inflation eased modestly to 5.3% in April from 5.4% in March.

The euro fell on Wednesday as it remained pressured by uncertainty on whether euro zone officials would provide timely financial aid to debt laden Greece and Portugal.

DOE Stocks

Crude – up 3.781 million barrels
Distillate – down 843,000 barrels
Gasoline – up 1.275 million barrels
Refinery runs – down 1.1%, at 81.7%

increase would not be discussed at their June meeting. It acknowledged that seasonal factors would push demand higher, with the need for OPEC crude to increase 2 million bpd in the third quarter compared with the second, to 30.87 million bpd. OPEC said its oil production in April increased by about 69,000 bpd to 28.99 million bpd as increased supplies from

members including Saudi Arabia, Nigeria and Kuwait offset losses from Libya and Angola. Production by the 11 OPEC members subject to production limits totaled 26.33 million bpd.

**May
Calendar Averages**
CL – \$104.43
HO – \$3.0225
RB – \$3.2458

Iran's Oil Minister Massoud Mirkazemi said the decline in crude prices would end soon. He said the fall was caused by various reasons including America's unilateral and profit seeking policies. He said when the dollar devaluates, oil prices will rally.

ConocoPhillips CEO James Mulva said that gasoline prices are unlikely to return to \$3/gallon in the near future.

The UN's International Advisory and Monitoring Board, which audits the Development Fund of Iraq, said the Iraqi government has made a slower rate of progress in its efforts to properly monitor how much oil it is exporting, refining and storing. It said that as of December 31, 2010, only 39% of the planned meters have been installed and calibrated in line with the regional Ministry of Oil plan.

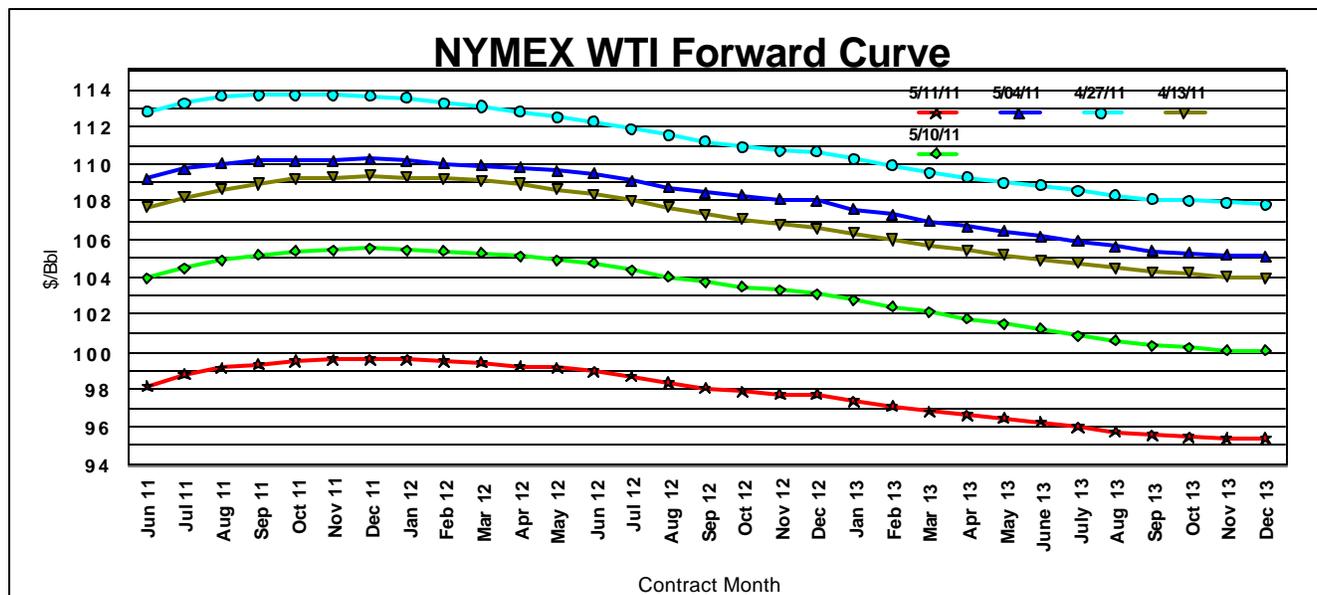
Refinery News

The flooding along the Mississippi River is hastening the onset of \$4/gallon gasoline in the US despite the sharp selloff in the oil market last week. Rising waters could force companies to halt pipeline flows or lead to congestion on railroads used to ship refined products. The waters crested in Memphis, Tennessee on Tuesday and forecasters said the worst of the flooding is next headed to sites downstream towards the Gulf Coast. Royal Dutch Shell's 237,000 bpd refinery in Norco, Louisiana is preparing for a possibly supply disruption due to rising floodwaters. Separately, Enterprise Products Partners LP said at least two of its barges would be stuck in Kentucky for up to a week due to flooding.

Enbridge Inc said its 39,400 bpd Norman Wells pipeline is shut down after a small leak earlier this week. It said about 4 barrels of oil leaked from the northern Canadian pipeline. The cause has not yet been determined. Separately, Enbridge Inc said it is looking for international acquisition opportunities.

Citgo Petroleum Corp shut an unspecified unit at its 163,000 bpd Corpus Christi, Texas refinery after it discovered a hydrocarbon vapor leak during routine maintenance. The cause of the leak is under investigation.

Holly Corp was restoring normal operations at its 85,000 bpd Tulsa West refinery in Oklahoma. The



company shut the west facility crude unit due to a mechanical failure on April 25th.

Tamoil said it restarted units at the Collombey refinery in Switzerland after planned maintenance work. It is expected to resume full operation in the week ending May 21st.

ConocoPhillips said it would begin serving notices to employees who will not be required to operate terminal operations by the end of May at its Wilhelmshaven refinery that it is considering selling.

China's National Bureau of Statistics reported that China's April refinery runs increased by 6.8% on the year to 37.2 million tons or 9.09 million bpd. China's crude runs in the January-April period increased by 9.4% on the year to 148.9 million tons or 9.1 million bpd. It produced 16.96 million tons or 4.14 million bpd of crude in April, up 4.4% on the year. Output in the first four months reached 68.32 million tons or 4.17 million bpd, up 6.1% on the year.

China's implied oil demand reached its highest monthly level in April as refineries increased their output to ensure domestic supplies. China's implied demand averaged 9.32 million bpd in April, up from 8.57 million bpd a year earlier.

China Aviation Oil Corp is shipping an oil tanker of jet fuel to Singapore from China, a sign that domestic demand for air travel may be weakening. The company rarely, if ever, ships jet fuel along this route. It typically ships cargoes to China from South Korea or Singapore.

The Petroleum Association of Japan reported that crude stocks in the week ending May 7th increased by 1.147 million kl to 17.743 million kl. It reported that Japan's gasoline stocks fell by 53,710 kl to 2.311 million kl while its gas oil stocks increased by 92,030 kl to 2.028 million kl and its kerosene stocks increased by 217,307 kl to 2.234 million kl. It also reported that Japan's crude runs averaged 3.15 million bpd, down 100,000 bpd on the week and refinery runs fell to 78.6% from 81.1% the previous week.

Production News

Yemen is in talks to import crude from Saudi Arabia as the country's oil production has been cut by nearly 50%. A blast in March on Yemen's oil pipeline has stopped the flow of light Marib crude, forcing its 130,000 bpd Aden refinery to shut and triggering a fuel shortage. The Yemeni government was in talks with Saudi Aramco to import about 2 million barrels of crude. In a bid to overcome the fuel shortage, Yemen has had to increase its imports of oil products. It imported 15,000 tons of diesel from Saudi Arabia last week followed by a further seven cargoes of diesel and gasoline from unspecified suppliers.

The US Bureau of Ocean Energy Management approved a Royal Dutch Shell Plc plan to drill for oil in five locations in deepwater off the Louisiana coast. The Shell plan is the second deepwater exploration plan approved in the Gulf since the government lifted a moratorium on deepwater drilling last October. At least six other plans for deepwater exploration in the Gulf are pending.

A.P. Moller-Maersk said one of its vessels would be docked for repairs after suffering damage during a storm in the UK North Sea in February. The floating production storage and offloading vessel had been producing from the Gryphon, Maclure and Tullich fields. It expects the vessel to leave the station for repairs by the end of May and it is likely to return to the field in the spring of 2012.

Norway's Statoil ASA said it is planning 23 maintenance shutdowns on the Norwegian continental shelf before October, starting in June with the Troll A field in the northern part of the North Sea. It said the shutdowns would be brief and performed to improve production regularity and safety. It said the Snohvit, Kvitebjorn, Visund and Statfjord C as well as Gullfaks A and B are planned to shutdown.

BP Plc plans to drill three exploration wells in Brazil this year. It would also bring a second drilling rig to Brazil as it increases exploration of its newly acquired concessions in the country.

Venezuelan American Chamber of Commerce reported that Venezuela exported about \$10 billion in petroleum to the US during the first quarter, up 29% on the year. PDVSA sent about 62% or 1.2 million bpd of its crude and refined oil products to North America in 2010.

Ecuador's central bank said the country exported 30.32 million barrels or 340,640 bpd in the first quarter of the year, up 3.3% from 29.34 million barrels or 329,652 bpd a year earlier.

Market Commentary

Today's market sell-off was gasoline driven as the market reacted to an unexpected increase of 1.28 million barrels in inventory levels. Forecasts were calling for a decrease of 200,000 barrels. It appears that high priced gasoline at the pump is affecting demand, as it was down 2.4 percent from the same period last year. Crude oil inventories climbed 3.78 million barrels, greater than the expected 1.4 million build. These two factors are indicative of an oversupplied under demanded market. Traders took this as a cue to take profits off the table, which helped the momentum of the market. Trading was halted momentarily as gasoline reached its daily downside limit of 25 cents. When the market resumed, the new daily limit was raised to 50 cents. Limits for crude oil were raised to \$20 with heating oil being raised 50 cents. At the start of the new Globex session this evening, the limits will revert back to their old limits. Over the next couple of days, we expect that prices will continue to head lower, looking for crude oil to test the \$85.00 level.

Crude oil: June 11 256,673 -33,926 July 11 312,471 +16,830 Aug 11 88,159 +7,101 Totals 1,653,799 -8,540 Heating oil: June 11 87,326 -2,733 July 11 56,631 +2,803 Aug 11 31,254 +592 Totals 307,317 +1,623 Rbob: June11 77,834 -5,813 July 61,277 +3,833 Aug 11 28,411 +1,422 Totals 290,808 +306

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9284	10845		31325		
8700	11120	27695	32777		33369
8625	11483	26680	33370	26965	35915
8500	11563	27375	33510	26300	36310
8385	11703	23685		25683	
	12126	22960		25145	
	14933			24240	
				23631	
				23414	

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